

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6924**

**BILL NUMBER:** SB 166

**NOTE PREPARED:** Apr 29, 2003

**BILL AMENDED:** Apr 26, 2003

**SUBJECT:** Distribution of Local Option Income Taxes (LOIT).

**FIRST AUTHOR:** Sen. Kenley

**FIRST SPONSOR:** Rep. Cochran

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (CCR Amended) The bill extends the rainy day fund loan repayment schedule for Porter County school corporations and public libraries by one year. The bill changes the method for computing the amount distributed to counties from money received by the Department of State Revenue (the Department) from a County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT), or County Economic Development Income Tax (CEDIT). The bill provides for a transition to the new method for counties in the first several years that a county income tax is initially imposed in the county. The bill requires a supplemental distribution in excess of the certified distribution to be deposited in a civil taxing unit's rainy day fund. The bill repeals: (1) provisions concerning the keeping of three- and six-month balances in a county's tax account with the state; and (2) a provision requiring a report on account balances for the CEDIT in February of each year.

**Effective Date:** Upon passage; June 1, 2003; July 1, 2003.

**Explanation of State Expenditures:** *Three- and Six-Month Balances:* Under the bill, the Department would no longer hold three- or six-month balances on counties with a local option income tax (LOIT). Any impact to the Department would be administrative and could be absorbed in their current budget. The State Budget Agency would also require an increase in administrative time in order to implement the provisions of the bill. The impact of the bill to the Budget Agency would be absorbable.

*Civil Taxing Units and Initial CAGIT Adoption After December 31, 2002:* Under the bill, the Department after reviewing the recommendation of the Budget Agency would be required to provide notice to the Department of Local Government Finance that a full transition of certification has occurred. The impact of this provision to the Department of State Revenue should be absorbable.

**Explanation of State Revenues:** *Porter County School and Libraries Rainy Day Fund Loans:* Under current law, Porter County civil taxing units and school corporations are allowed to take a 10-year loan from the state Counter-Cyclical and Economic Stability Fund (Rainy Day Fund) established by IC 4-10-18-2. The total amount of loans allowed for all Porter County civil taxing units may not exceed \$28 M.

Under the bill, Porter County school corporations and libraries would be allowed to delay the start of repayment of loans granted under current law until after June 30, 2004. Additionally, these entities would be required to repay the loans within 11 years from the date that the loans were made. Currently, Duneland School Corporation has three outstanding loans, each in a principal amount of \$4.6 M, totaling \$13.8 M, and the Westchester Public Library has a loan with a principal amount of \$300,000. Two of the Duneland loans and the Westchester Library loan each have an interest rate of 1.33%. The third Duneland loan has a rate of 1.26%. Assuming these entities began repayment of loans in July of 2004, this provision would shift approximately \$1.5 M in payments currently due to the Rainy Day Fund in July 2003 to July 2004. However, under the bill there would be one additional year of payments to the Rainy Day Fund than under current law. Using the interest rates listed above, the Rainy Day Fund would lose an estimated \$229,000 (over the life of the loans) in forgone interest earnings as a result of the proposal. The interest impact to the Rainy Day Fund would be approximately \$14,000 in FY 2004 and \$28,000 in FY 2005.

*Background Information:* The balance of the Rainy Day Fund as of June 30, 2002, was \$269.2 M and is estimated to be \$278.6 M at the end of FY 2003.

**Explanation of Local Expenditures:** *Porter County School and Libraries Rainy Day Fund Loans:* Under the bill, Porter County school corporations and the Westchester Library would be allowed to delay repayment of loans taken from the state Rainy Day Fund until after June 30, 2004, and would be allowed an extra year to repay the principal. (See *Explanation of State Revenues*.)

**Explanation of Local Revenues:** *Summary:* Under the bill, the Budget Agency would begin calculating LOIT recommendations using actual collections data from the Department of State Revenue instead of projections at 1%.

*CY 2005 Certified Distributions:* Certified distributions of LOIT for CY 2005 would be based on revenue received from collections of LOIT between tax year 2003 (received in April 2004) and July 1, 2004.

*Future LOIT Adoption:* A county that adopts a LOIT in the same calendar year that the Department makes a certification would require the Department, with review of the Budget Agency, to adjust the certified distribution of the county to provide for a distribution in the ensuing calendar year. The Department would be required to make a full transition to certification of distributions under the proposed method of the bill.

*Removal of Account Balances:* The bill repeals three-month and six-month account balances. However, the Department would be able to correct for negative account balances. Distributions would be adjusted for counties with negative balances. Any adjustment could be spread over several years instead of a single year.

The Department could also correct distributions for clerical and mathematical errors made in a previous certification.

*Uses:* Any extra balance found to exist in a county's account in excess of the amount necessary would be placed in the county certified distribution in the ensuing year. The excess balances of LOIT revenue received

by counties would be as allocated certified shares. Whatever portion of certified distributions received by civil taxing units would be deposited into the civil taxing unit's rainy day fund.

Current distributions of CAGIT are allocated to either Property Tax Replacement Credits (PTRC) or certified shares. Certified shares are used only by civil taxing units, in part for additional property tax relief and in part for general governmental purposes.

COIT revenue may be used for (1) increased homestead credit, (2) operation of public communications systems and computer facilities districts, (3) operation of public transportation corporations, (4) bonds for certain economic development projects, (5) redevelopment initiatives in Marion County, and (5) distributive shares to civil taxing units.

CEDIT distributions may be allocated as follows: (1) economic development projects and hazardous waste cleanup (in certain counties); (2) When imposed in conjunction with either CAGIT or COIT, capital projects; and (3) additional homestead credits.

*Civil Taxing Units and Initial CAGIT Adoption After December 31, 2002:* Until the Department, after review of the Budget Agency recommendation, notifies the Department of Local Government Finance that a full transition to certification of distributions occurred for the calendar year, civil taxing units in a county that adopts CAGIT after December 31, 2002, and had CAGIT in effect on January 1 of the calendar year immediately preceding the ensuing calendar year, would have an initial certified distribution equaling the amount of the certified shares certified for the civil taxing unit in the most current calendar year preceding the ensuing calendar year.

In a calendar year where a full transition to certification of distributions has occurred and in each subsequent calendar year, the initial certified distribution would equal the amount of certified shares certified for the civil taxing unit in the calendar year in which a full transition to certification of distributions, as provided under the bill, initially occurred for the civil taxing unit.

*Background:* Each year in July, the State Budget Agency calculates a certified distribution for CAGIT, COIT, and CEDIT for the following year. Under P.L. 178-2002, upon Budget Agency recommendation, the Department determines if an excess balance exists to either a CAGIT, COIT, or CEDIT county's three- or six-month certified distribution balance. If an excess balance exists, the Department must disburse a supplemental distribution in January of the ensuing calendar year.

As of FY 2002, 53 counties have adopted CAGIT with total CY 2003 certified distributions of \$321,835,651; 27 counties have adopted COIT with total CY 2003 certified distributions of \$462,833,380; and 60 counties have adopted CEDIT with total CY 2003 certified distributions of \$146,937,065.

**State Agencies Affected:** Department of State Revenue; State Budget Agency; State Board of Finance.

**Local Agencies Affected:** Counties with a Local Option Income Tax; Counties adopting CAGIT after December 31, 2002.

**Information Sources:** Tom Conley, Department of State Revenue; David Dukes, State Budget Agency; Dan Bastin, Office of the State Auditor; State Budget Agency: *General Fund, Property Tax Replacement Fund, and Rainy Day Fund Summaries FY ending June 30, 2002.*

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